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Interest Cost Reimbursement
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In last month's "Informer", mention was made of that fact that PECFA had developed a series of examples illustrating how the interest rate provisions contained in the last budget bill were being interpreted. Although the examples are not exhaustive of all situations or issues that can occur, we think that they will provide guidance to many claimants with loans. So that everybody could obtain a copy of the examples, we are providing them as this month's program topic.

Hopefully, the following will answer many of your interest rate questions:

Loan Scenario 1

Loan is secured prior to November 1, 1999, by a loan agreement dated prior to November 1, 1999. The amount of the loan includes principal and interest (with interest costs being paid out of the committed principal amount). The loan is written at prime plus 1%. Interest on this loan is reimbursable by PECFA at prime plus 1% until the loan amount committed is reached. At the point in time when the original commitment is reached, an additional commitment would most likely be executed to create a higher loan amount. **If the new "loan" is dated on or after November 1, 1999, all interest costs from the date of signature forward would be reimbursable at only the prime minus 1% or 4% level regardless of whether the interest is on new remediation costs or simply interest costs still accruing from the original loan dollars**.

Loan Scenario 2

Loan is secured prior to November 1, 1999 and written for a principal amount plus interest. Loan is written at prime plus 1%. Interest on this loan is reimbursable by PECFA at prime plus 1%. **Interest can continue to be accrued on the loan after the principal commitment is reached and be reimbursed at prime plus 1%.**

If a decision is made to "pay" the accrued interest out of the proceeds of another loan, the rate on the other loan at which interest is reimbursable by PECFA will depend on the date the other loan originated. If the other loan originated on or after November 1, 1999, the interest would be reimbursable either at the prime minus 1% or 4% level. Any interest costs/charges included in a loan, which originated on or after November 1, 1999, can only be reimbursed at prime minus 1% or 4%.

Loan Scenario 3

Two loans are secured prior to November 1, 1999. One loan is written to cover remediation costs and the second is written to provide for the accrual/accumulation of interest. The first loan has a stated dollar amount (for remediation costs) and the second loan is for the current year with a specific termination date. However, the second loan does not have a specific dollar amount provided in the loan agreement. The loan is written at prime plus 1%. These loans are treated the same as the loan in Loan Scenario 2. **Interest is reimbursable by PECFA at prime plus**

1%.

If the interest on the second loan agreement is paid out of the proceeds of a third loan, the rate on the third loan at which interest will be reimbursable by PECFA will depend on the date of the third loan. **If the third loan originated on or after November 1, 1999, the rate will be reimbursable at the prime minus 1% or 4% level. Again, all interest costs/charges included in a loan, which originated on or after November 1, 1999, can only be reimbursed at prime minus 1% or 4%.**

Loan Scenario 4

A true revolving line of credit, evidenced by a revolving line of credit agreement with appropriate terms, secured prior to November 1, 1999, will be reimbursable by PECFA at prime plus 1%. A revolving line of credit agreement secured on or after November 1, 1999 will be reimbursable at either the prime minus 1% or 4% level.

PECFA may need to review the loan documents to determine, on a case-by-case basis, whether the documents constitute a true revolving line of credit secured prior to November 1, 1999. As a general guide, however, the fact that a lender does not charge a 2% origination fee on a new advance would be indicative as would be the use of the Wisconsin Bankers Association form for a "Business Credit Agreement" that is written to allow the customer to "borrow, repay and reborrow" under the agreement. **The receipt of a reimbursement from PECFA would restore room under the original commitment amount if the loan documents constitute a true revolving line of credit and all provisions of the agreement are adhered to.**

Loan Scenario 5

If a loan commitment was completed before November 1, 1999, but all papers were not signed until after November 1, 1999, does the reimbursement of interest fall under the old or new rates? For a commitment letter to establish an obligation on the part of the claimant, the letter would have to:

- Be site specific
- Have been signed by the claimant prior to November 1, 1999
- Have been done at the request of the claimant
- Include information on interest rates and collateral
- Have an expiration date to the offer

Commitment letters that meet the tests outlined, and other applicable provisions of the PECFA statute, can be converted to a note and be reimbursable at the prime plus 1% rate.

Loan Scenario 6

A loan has reached its commitment amount of $150,000. It is now up for renewal and new money is being extended pay for the next year’s interest (e.g., $12,000 additional commitment is made). **The new loan for $162,000 would be reimbursable at either the prime minus 1% or 4% level if the new commitment/note is originated on or after November 1, 1999.**

Loan Scenario 7

A loan has not reached its commitment level but it has reached the date of its annual review. No new money is being extended. An annual review fee can be charged and the original note can continue to accrue interest reimbursable by PECFA at prime plus 1% provided the original note was executed prior to November 1, 1999. **A simple review executed on or after November 1, 1999, of an original note secured before November 1, 1999, remains a loan secured prior to November 1, 1999, for purposes of interest reimbursement by PECFA.**

We hope that the information provided illustrates our understanding of the reimbursement provisions. If you have questions on the examples, please contact the PECFA program.